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ABSTRACT

The purpose of this guidebook is to help elected leaders of small towns and communities stretch their investments when matching funds are required to compete for a grant or to pay for development costs above the grant award itself. The federal "small cities" Community Development Block Grant (CDBG) is used as an example throughout the guide because it is the largest and perhaps most accessible grant program available to small and rural governments. CDBG funds may be used for economic development, public facilities, housing renovation, and other eligible activities. There are two primary methods to minimize local matching expenditures: (1) attracting money from other private and public sources; and (2) cutting unnecessary planning, project, and management costs. The guidebook discusses the concept of "leveraging" which enables a community to attract the most outside dollars for each dollar of local investment. It also identifies some of the specific financing sources used most often to provide matching funds for CDBG activities. The booklet mentions some frequently overlooked state and local resources, as well as some commonly-known federal grant and loan programs. The guide also examines a new approach to public management that is rooted in "old-fashioned common sense." By starting with a common definition of "entrepreneurial," grant recipients of all sizes are encouraged to examine the productivity of each dollar they invest in planning, administration, construction, and related costs. (TES)

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Stretching Local Dollars

a small town guide to matching funds

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Preface

This guidebook is written for elected leaders of towns, townships and other small communities. Its purpose is to help your community develop more competitive applications for Community Development Block Grants (CDBG) and other federal programs.

The "small cities" CDBG program is used it illustrate financing strategy in this guidebook because it provides nearly $800 million a year to small communities under 50,000 in population, and because it is also more accessible than many other federal programs.

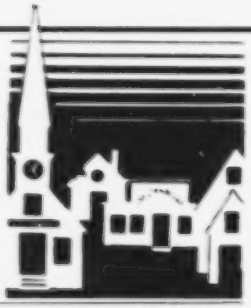
Thousands of small governments, many under 2,500 in population, have received CDBG funds. As the program has become better known through state administration and through its benefits to small towns, applications have become more numerous and more competitive.

Over the past four years, the National Association of Towns and Townships (NATaT) and its National Center for Small Communities have provided targeted publications and other technical assistance services to small governments in every state to increase their knowledge of and participation in the "small cities" CDBG program. More than 15,000 towns receive NATaT publications; hundreds of local leaders have attended workshops at state and national conferences, and dozens of communities (as small as 300 in population) have received on-site technical assistance.

This guidebook focuses on strategies for small towns to raise private and public matching funds. It is intended to provide small-town officials with the tools to submit a well-documented, well-planned and affordable grant proposal.

NATaT thanks all of the small-town leaders who have contributed their thoughts and experience to this project. The work that provided the basis for this guidebook was supported by funding under a cooperative agreement with the U.S. Department of Housing and Urban Development. The substance and findings of the work are dedicated to the public. The authors and publisher (NATaT's National Center for Small Communities) solely are responsible for the accuracy of the statements and interpretations contained in this guidebook; such interpretations do not necessarily reflect the views of the government.

Stretching Local Dollars



a small town guide to matching funds

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CHAPTER I
Introduction

There is good news and bad news for small towns seeking grants. Funds are available to help pay for community development projects, but most grants do not cover total project costs. Fortunately, many small communities have discovered creative sources for matching funds and innovative methods of cost containment.

This guidebook was written to help you stretch your community's local investments when matching funds are required to compete for a grant or to pay for costs over and above the grant award itself. The federal "small cities" Community Development Block Grant (CDBG) is used as an example throughout this guide because it is the largest and perhaps most accessible grant program available to small and rural governments. Funds may be used for economic development, public facilities, housing renovation and other eligible activities.

Reducing local expenditures

There are two primary methods to minimize local matching expenditures: one, attracting money from other private and public sources, and two, cutting unnecessary planning, project and management costs.

Chapter II, "Matching funds provide increased impact," discusses the concept of "leveraging" which enables a community to attract the most outside dollars for each dollar of local investment.

Chapter III, "Let your imagination do the walking," identifies some of the specific financing sources used most often to provide matching funds for CDBG activities. The article not only mentions well-known federal grant and loan programs but some frequently overlooked state and local resources.

Fiscal responsibility may seem out of fashion in this era of $200 billion budget deficits. But many small town officials know that a penny saved is still a penny earned, especially when you save enough pennies. Chapter IV, "The public manager as innovator," examines a new approach to public management that is rooted in old fashioned common sense. By starting with a public sector definition of "entrepreneurial," grant recipients of all sizes are challenged to examine the productivity of each dollar they invest in planning, administration, construction, and related costs.

CHAPTER II

Matching funds provide increased impact

The plaque at the entrance read "This facility was built entirely with *small cities* Community Development Block Grant funds." In the mid-1980's, this sign qualifies as an historical landmark since 100 percent grant funded projects are largely a thing of the past.

Most of the 48 states (including Puerto Rico) which administer the "small cities" Community Development Block Grant (CDBG) program now require localities to provide matching funds in order to be considered for a grant award. Generally, as the ratio of local dollars to grant funds increases, so do the number of points awarded by the state for the grant application.

The challenge to local leaders is to gain a firm commitment of other source dollars if and when a grant award is made. This process is known as "leveraging" and literally does use grant dollars as a lever to pry loose money from both private and public sources.

Success stories

The following are brief examples of how small towns have successfully leveraged funds from other sources:

- Iowa Falls, Iowa (population 7,500) used a $200,000 CDBG award to attract over $1 million in matching funds to start up an innovative plastics recycling business. The new firm will eventually employ 60 low- and moderate-income people in an area hard hit by the farm crisis.
- Floodwood, Minn. (population 648) has established a $225,000 revolving loan fund with a grant from the state CDBG program. Initially, the funds have financed a local business which developed three new uses for peat, a raw material which was previously exported before processing. The new company has created 28 local jobs and the loan repayments will eventually assist other businesses and attract additional local investment.
- Girard, Pa. (population 2,600) used a $300,000 CDBG grant

to leverage over $700,000 in industrial development loans. The combination of public and private funding has created an incubator for local entrepreneurs through the renovation of facilities owned by a major employer who went bankrupt.

The reorganized floor space, suitable for small, growing businesses which share secretarial, copying and telephone services, is now 75 percent occupied.

Communities already leverage funds

Many communities already practice an indirect form of leveraging with the funds they spend on general improvements. Roads are widened and street lights provided to promote economic growth and private residential development. Water and wastewater services are upgraded to attract new businesses.

While these expenditures are merely incentives to promote private or public investment, the leveraging requirement in many state CDBG programs *requires* the commitment of other source funding if the grant is awarded.

There are several reasons for the transition within the CDBG program from full grant funding to an emphasis on a substantial local match.

The growing national deficit has led to lower appropriations for the vast majority of federal grant programs, CDBG included. States which administer the "small cities" program have used leveraging requirements to stretch scarce public resources. Matching requirements have enabled many states to lower the average grant amount and, at the same time, to make awards to a larger number of local governments despite the reduction in federal funding levels.

Use of loans encouraged

State agencies have also encouraged the use of loans rather than grants in local economic development projects. For example, a $100,000 Community Development Block Grant could be used to provide $10,000 grants for storefront rehabilitation. But even with the properties improved, the businesses might have no more customers than before. More importantly, the $100,000 would be gone with no benefit to the town, except perhaps for some minor increases in property tax assessments.

On the other hand, by using the funds to subsidize interest rates, that same $100,000 could be used to create a $400-$500,000 loan

pool with below market rates that would not only achieve rehabilitation but would also provide working capital to help 30 to 50 businesses expand. In addition, the funds used to support the pool can be returned to the town for other economic development activities as loans are paid down or paid off.

Cooperation required

It should be clear from these examples that successful leveraging requires a great deal of cooperation among levels of government and between the private and public sectors. The availability of block grant funding, however, does not guarantee that matching grants or loans can be obtained from other federal or state sources. Each program has its own set of eligibility requirements and application procedures which must be carefully coordinated by the local government officials.

Similarly, a CDBG award cannot force local businesses to provide matching funds. Leveraging is a process in which participation by the private sector is based on mutual benefit. Localities cannot use public funds to subsidize commercial ventures at the expense of either tax payers or local competitors. Ideally, economic development initiatives should serve total community interests as well as providing employment and an increased tax base.

Invest in yourself

Leveraging, or matching, requirements are based on the principle that communities and businesses should be willing to invest in themselves if they are asking for outside assistance. Small and rural governments that demonstrate their own level of commitment through tax effort, private/public cooperation and even volunteer efforts are much more likely to attract funding from a variety of sources than those communities whose grant applications merely document the devastating effects of the farm crisis, plant closings, population loss, etc.

Good planning and community cooperation are the keys to successful leveraging. Local elected leaders usually initiate the leveraging process and many look to the CDBG program as a primary resource. Leveraging of both private and public funds benefits all parties by minimizing the investment of each and by fostering cooperation through mutual project goals.

CHAPTER III

Let your imagination do the walking

What happens to Community Development Block Grant (CDBG) applications which do not include matching funds? One official replied that in his state, "They're dead in the water."

Not *every* state requires that other source funding be committed to grant-assisted projects. But more and more frequently the presence of public and private support determines if a grant application starts with one foot in the future or one foot in the grave. This chapter reviews some major sources of funding assistance from which small town CDBG recipients have obtained help.

During the 1970s, the CDBG program provided a number of grants which covered all or most of the cost of eligible activities such as economic development, public facilities and housing renovation. Cutbacks in federal funding, increased project costs, and greater competition for funds, however, brought about efforts to divide financing responsibilities more evenly.

Matching funds

Over 70 percent of all state block grant programs award points for local and other source matching funds. Many others take into account the ratio of block grant dollars required to provide each service unit such as a new job or renovated housing unit. In most cases, these ratios are far more favorable when applicants have other funds committed to help complete the project.

The availability of matching funds not only makes an application more competitive, it may well determine if a project is affordable. A community of 400 low- and moderate-income people may not be able to pay for a million-dollar wastewater treatment facility even if it is eligible to receive $300,000 in CDBG funds. The availability of additional funding from the U. S. Environmental Protection Agency or a state infrastructure bank may often make the project financially feasible for individual users.

With many of the "big ticket" activities which are eligible for CDBG assistance, small and rural governments must think in terms

of financial "packages" involving local, private and public dollars rather than in single source funding. The process of leveraging, or attracting additional money by making an initial investment, is described in the previous chapter. Some of the pieces which may be used to make up the package are summarized below.

Federal sources

Community Facilities Grants and Loans program. The Farmers Home Administration (FmHA) of the U. S. Department of Agriculture administers a special grant and loan program for communities under 10,000 to construct a wide range of community facilities. Low-interest loans are available for up to the full amount of project costs, while the limit for grants is three-quarters of the project costs. Different interest rates are available depending on community income.

The Wastewater Construction Grants program. The U.S. Environmental Protection Agency distributes $2.4 billion annually among the states to construct and upgrade municipal treatment facilities. Federal support is limited to 55 percent of construction costs.

Recent legislation will bring about a four-year transition from a grant to a loan program. Unlike the CDBG program, availability is based more on public health considerations than on community need or income.

The Urban Action Development Grant program.

Administered through the U.S. Department of Housing and Urban Development (HUD), the program is designed to encourage new or increased private investment in both rural and urban cities and counties (and some towns and townships) which are experiencing severe economic distress.

The UDAG program helps communities which help themselves. Proposed projects must guarantee at least a 2.5 to 1 ratio of matching funds; the actual ratio for recently approved projects has exceeded 5 to 1.

Eligibility to apply for UDAG funding is determined by a community's level of distress in categories such as age of housing, per capita income, percent of poverty, etc., and in demonstrated results in housing and employing low- and moderate-income persons. In addition, towns and townships must have powers similar to those of other general purpose local governments within their state.

The U.S. Small Business Administration.

The SBA has a wide variety of loan guarantee and insurance programs for new or existing small businesses. Funds may be used to construct, expand or convert facilities; to purchase equipment or materials; and for working capital.

SBA loans are frequently part of a financial package involving a CDBG economic development grant.

State sources

State grant and loan programs. Every state offers some form of grant and/or loan program for community and economic development.

Because many states see public facilities funding as critical to economic development, they offer loan guarantees, joint marketing of bonds,and financial planning assistance for these projects.

State departments of commerce, economic development, community affairs, planning, etc., often offer technical assistance to small and rural governments which are interested in putting together a financial package from a number of different sources.

Local sources

Local financing options range from the relative familiarity of a bond issue to the complexity of a sale/leaseback arrangement. Small and rural governments are probably safer in first examining revenue techniques that they have used or at least understand than in experimenting with unfamiliar sources.

General obligation bonds are backed by the full faith and credit of the issuing government and are usually funded by local taxes. State law often limits the indebtedness which a community may incur. Both a general council and a bond council should be consulted before planning to issue public debt.

Revenue bonds are supported entirely by revenues raised from beneficiaries of a service or facility. Revenues come from user fees, front-foot assessment, park and recreation fees, etc.

Block grant recipients must make certain that any user fees charged for grant funded activities are permitted under the conditions of the grant and that the amount charged does not exclude low- and moderate-income persons.

Industrial revenue bonds (IRB's) are issued by local governments or other public entities to assist in the development of private busi-

ness or commercial ventures. Essentially, the public issuer passes on the lower cost of tax-exempt borrowing to a private sector developer.

Recent federal tax reform legislation, however, has established restrictions on the level of funding and on the type of activities for which IRB's (and even local bonds) can be used.

Local governments may also be asked to consider some creative financing techniques such as sale/leaseback arrangements, tax increment financing, and others. In putting together a financing package, community leaders should understand how the financial commitments work as well as what they are going to cost. Small- town facilities or services should be simple and predictable; financing strategies should follow the same general rule.

Private sources

We should borrow the term "entrepreneurial" from the next chapter to describe the most successful efforts to raise private dollars for public projects. Small and rural communities have a long tradition of tackling home town problems with enthusiasm and imagination.

Fund raising is no exception and the same community project may include support from a community bake sale, a corporate gift from a Fortune 500 company as well as funding from the "small cities" block grant program.

Community Fundraising – There are many cliches that begin with "when the going gets tough ...." But many small towns have invested in their own future when no one else seemed willing. Faced with a severe decline in agriculture, Wauzeka, Wisc. (pop. 580) sold 2,800 shares in its own Wauzeka Industrial Development Corporation. Even some long time residents on fixed income were able to purchase a single share at $50.

Since 1981, the $140,000 revolving loan funds have helped to finance construction of an industrial park, the opening of a new restaurant and the expansion of five existing local firms. Each of the new businesses has brought private investment and an increase in local tax revenues.

In a similar case, community investors in Chippewa Falls, Wis. (pop. 12,500) provided the backing for an $800,000 industrial development bond to expand a local plastics and educational materials company. The financing arrangement led to 30 new jobs and enabled the city to reserve this portion of its full faith and credit for future bond issues.

Special events – Special events not only raise money but can

generate enthusiasm for the proposed project. In general, the principle of moving resources from areas of low productivity to high productivity should apply.

A once a year festival tied to seasonal crops or a community's ethnic roots may be far more profitable and much less effort than a series of bake sales or car washes. For example, annual maple syrup festivals benefit small towns from Vermont to Virginia, and America celebrates its ethnic pride at festivals in both small midwestern villages and major urban centers. Auctions, flea markets, variety shows, and sports tournaments have all proven reliable fundraisers for the right community with proper planning.

The Financial Community – Local banks and businesses are another funding source. The construction of public facilities should enjoy community-wide support, especially from those segments of the community which will benefit most from the facilities. Banking leaders should be included in the early planning stages and aggressively approached for advantageous loans. Business leaders may supply not only contributions and materials but management assistance, as well.

In Jefferson, Texas, the First National Bank has offered two percent loans of up to $10,000 to renovate store fronts in the town's historic district. Business leaders responded by borrowing an additional $100,000 at market rates to further rebuild the local economy. The bank's initiative has benefitted the entire community including First National's stock holders.

Help from big business

Corporations and foundations are not likely to finance town halls and street repairs. But small town projects as diverse as historic preservation, energy conservation and economic growth have received assistance from big business.

Dungannon, Va. (pop. 1,700) started down the road to economic recovery when the Mott Foundation provided seed money for the Dungannon Development Corporation.

Because the Wisconsin Bell Telephone Company depends on community growth, it has established a small business/industrial visitation program. The program was developed to make local elected leaders more aware of and responsive to private sector needs.

The visitation program brings municipal and business leaders together to examine how governmental actions (taxes, zoning, highway access) promote or hinder growth.

The program has been offered at no charge to local leaders and

has worked successfully in communities of under 5,000 to over 50,000. Grants, loans, gifts and technical assistance - each one may be part of making a project affordable. State development agencies, the state extension service and regional planning organizations are often willing to help locate federal and state funds.

A community must know its needs and resources before looking for outside funding. But as many small towns have proven, the most important factor may be imagination in locating dollars from sources both far and near.

CHAPTER IV

The public manager as entrepreneur

For years, the private and public sectors have pursued different goals and adopted different management styles. The classic over-simplification has distinguished between profit- oriented business and service-oriented government.

Private managers pursued the bottom line while public administrators were concerned with the effective delivery of services.

Even if this total separation never existed, the distinction between private and public management has been increasingly difficult to make. Budget cuts, tax reform and federal mandates have altered the traditional areas of responsibility; scarce public resources have forced governments at all levels to look as closely at their bottom line as the services they deliver.

CDBGs: stiff competition

This concern for getting the most for one's dollar and for cutting unnecessary costs applies especially to those seeking federal grants.

The Community Development Block Grant (CDBG) Program becomes more and more competitive as the number of applicants grows, matching requirements increase and the number of dollars decline. To increase their management capacity, grantees are encouraged to manage their resources in a businesslike, innovative, creative, effective and non-traditional manner.

Application of this "entreprenuerial" approach to the public sector has generated considerable discussion over the meaning of the word.

To be entrepreneurial one must take risks, one must be businesslike, and one must be able to do more with less.

A definition that would seem to capture these concepts is the one used by Peter Drucker: "entrepreneurialism is shifting resources out of an area of low yield and low productivity into an area of high yield and high productivity."

Thus, all the resources the public official manages are potential targets for entrepreneurialism.

Innovation is tool

To put it another way, innovation is the means by which we become entrepreneurial – it's the tool by which the yield of resources is increased or moved to an area of higher activity. The definition that best fits our purposes is "the generation, acceptance and implementation of new ideas, processes, products and services."

To be able to innovate, to become entrepreneurial, one must begin with the belief that anything can be improved – recognizing that anything can be managed in such a way as to increase the yield, and the results. Operating under this new philosophy implies a willingness to recognize that any process, any product, or any service can be improved – a willingness to accept change and new ideas – a willingness to accept a new way of doing business.

Change is positive

Change must be viewed as a positive aspect of program administration, not a negative force to be avoided. Too often people view change as a threat, rather than an opportunity. Tom Peters, author of the best seller *In Search of Excellence*, talks about improving 1,000 things one percent, rather than one thing 1,000 percent. One thousand things being improved one percent is a viable, attainable goal, whereas hoping to improve one single thing 1,000 percent is dreaming, at best.

To achieve such a goal, however, requires that everyone be alert to opportunities in all aspects of program operations.

To improve 1,000 things one percent also means that innovation is everybody's business – it's not strictly a management function with new ideas or change being imposed by those above on those below.

Why one succeeds

Why does one community achieve particularly successful results with its rehabilitation program, while others are struggling? What is that community doing that makes the difference? Why does one community only spend only this percent of its resources on administration, while another spends that percentage, plus?

The answers to such questions will not appear magically. In most

cases, it won't be apparent at all unless everyone is sensitive to the idea of innovation and alert for successes.

Those approaches which are innovative and productive need to be identified, no matter how small or seemingly insignificant, and steps need to be taken to share and promote them. By exposing as many people as possible to innovative ideas and approaches, change will be promoted among all program participants which will result in an effective and efficient program.

Be receptive to innovation

While there are many ways to go about being innovative in an effort to become entrepreneurial, perhaps the single most important thing that can be done is to adopt an attitude that is receptive to innovation.

Entrepreneurialism is many things, but above all it is an attitude – an attitude that must pervade everything that is done which becomes a norm – an everyday way of doing business. Innovators are greedy for new ideas and never satisfied with the status quo.

With the vast and rapid changes that are taking place today, we cannot continue to do business as usual and hope to be successful in our efforts to revitalize the nation's smaller communities. We must be willing to change, and to devote the time and attention to the effort that it takes to make successful change a reality – to ensure the resources we employ are moved from those areas of low yield and low productivity to those areas of higher yield and higher productivity – to be innovative and entrepreneurial.

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NATaT and the National Center for Small Communities

The purpose of the National Association of Towns and Townships (NATaT) is to strengthen the effectiveness of towns, townships and small communities and promote their interests in the public and private sectors.

NATaT is a non-profit membership organization offering technical assistance, educational services and public policy support to local-government officials from more than 13,000 towns, townships and other small communities across the country.

Developing effective federal policy

Through its National Center for Small Communities, the association conducts research and develops public policy recommendations which are scaled to the unique needs and nature of rural governments and small towns. By analyzing federal and state initiatives, and disseminating information about them, NATaT and the national center keep local officials abreast of decisions and actions of national import, so they can better manage change in their communities.

Education and information

NATaT's educational conferences, training, workshops, specialized publications and audio-visual resources help small-town officials cope with change in their communities – and improve the quality of life for rural people. The assocation's annual conference for small-town officials is the largest town meeting in the nationa. If focuses on federal programs and policies affecting small communities. NATaT publishes a monthly news journal, "The Reporter," which is the only national source of intergovernmental policy news and "how-to" information written exclusively for small town officials. The journal's topics range from community and economic development funding to tested small-town management and planning techniques.